

Bekaert

A true BRIC play

Bekaert's leadership in China is bearing fruit and the intended Uralkord acquisition has created a new growth platform in Russia. We have increased our estimates by some 15% and included the market value of the JVs into our target price. Buy, TP €130.

Key forecasts

	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue (€m)	1914	2010	2144	2323	2466
EBITDA (€m)	257.4	262.2	267.6	282.8	287.6
Reported net profit (€m)	189.9	142.3	145.4	159.4▲	167.3
Normalised net profit (€m)	135.7	142.3	145.4	159.4▲	167.3
Normalised EPS (€)	6.18	6.59	6.99▲	7.88▲	8.27
Dividend per share (€)	3.00	2.50	2.75	3.00	3.25
Dividend yield (%)	2.91	2.43	2.67	2.91	3.16
Normalised PE (x)	16.7	15.6	14.7	13.1	12.5
EV/EBITDA (x)	9.54	9.47	9.58	9.00	8.71
EV/invested capital (x)	1.41	1.41	1.41	1.34	1.27
ROIC - WACC (%)	5.38	5.30	6.02	3.62	3.30

Accounting Standard: IFRS

Source: Company data, ABN AMRO forecasts

year to Dec, fully diluted

12% ROIC justifies capex plans

Bekaert's ROIC is above 12% and justifies the announced capex plans in China and Russia, in our view. Our analysis shows that future share buybacks will only add 1.3% to EPS, given the company's balance sheet targets. We therefore prefer investing in emerging markets over a share buyback.

Emerging markets underestimated

After the excellent performance in China, which is the largest and strongest-growth steelcord user globally, Bekaert created a new platform for growth: Russia. The intended acquisition of Uralkord (some 25% market share) should provide a strong foothold in a rapidly growing market. We argue Bekaert's top-line growth will be some 4% higher than expected as a result of the performance in emerging markets.

Joint ventures: still hidden value

We think the market value of Bekaert's joint ventures should be reflected in its share price. Some 33% of net profit is contributed by Bekaert's joint ventures mainly in Latin America. We argue that these joint ventures have a significant contribution to Bekaert's earnings, and this contribution looks sustainable. Current bookvalue is €238m, which implies a PE 08F of 4.4x and EV/EBITDA 08F of 2.2x, which is below the market price, we believe. We have used Bekaert's PE 08F and EV/EBITDA 08F excluding JV to calculate the value of Bekaert shares including hidden value. Our analysis shows that the hidden value of the joint ventures is some €32 per share.

Valuation and target price

We expect top-line growth with a 2007-09 CAGR of 7% to beat Reuters consensus of 3% as a result of the focus on emerging markets, resulting in higher EPS estimates. We raise our 2007-08F estimates by some 15% to €6.99 (from €6.57), €7.88 (from €6.89), and introduce our 09F EPS of €8.27, respectively. The hidden value of Bekaert's joint ventures adds €32. We raise our target price to €130 (from €87) and stick to Buy.

Important disclosures and analyst certifications regarding companies can be found in the Disclosures Appendix.

Priced at close of business 18 May 2007. Use of ▲ ▼ indicates that the line item has changed by at least 5%.

Gustav Mahlerlaan 10, 1082 PP Amsterdam, Netherlands

Buy

Absolute performance

n/a

Short term (0-60 days)

Underweight

Sector relative to market

Belgium

Engineering & Machinery

Price

€103.00

Target price

€130.00 (from €87.00)

Market capitalisation

€2.04bn

Avg (12mth) daily turnover

€4.95m

Reuters

BERTt.BR

Bloomberg

BEKB BB

Asset allocation

Equities Overweight

Cash Neutral

Bonds Underweight

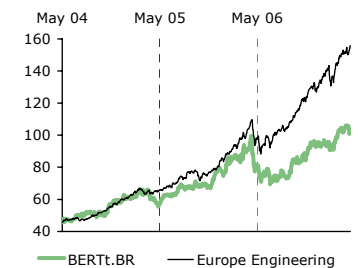
Price performance (1M) (3M) (12M)

Price (€) 104.0 93.1 81.3

Absolute % -1.0 10.6 26.8

Rel market % -3.1 6.7 3.4

Rel sector % -4.4 -0.8 -19.4



Stock borrowing: Moderate

Volatility (30-day): 16.97%

Volatility (6-month trend): ↓

52-week range: 106.50-69.20

FTSE Eurotop 300 Index: 1600.25

Europe Engineering: 376.84

Source: ABN AMRO, Bloomberg

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The Basics

Key assumptions

We are very positive about Bekaert's expansion plans in China and Russia. The high investment level in China is bearing fruit and the intended acquisition of market leader Uralkord in Russia creates a platform for expansion in a double-digit-growth market. For 2007-09 we assume some 45%, 30% and 20% organic growth in Steelcord China, following the €100m investments each year for FY07F and FY08F. The contribution from Russia is initially small, but will grow rapidly. We assume 6.7% and 8.3% group sales growth in 2007F and 2008F, respectively. In our model, we incorporate a flat wire rod price, but raw material fluctuations could impact Bekaert results due to FIFO adjustments of the inventory. For example, in 2004, Bekaert's EBIT was boosted by €40m as a result of rising wire rod prices.

How we differ from consensus

Our EPS estimates for 2007-09 are some 10% above Reuters consensus, driven mainly by our top-line assumptions in emerging markets and the lower number of outstanding shares. After the AGM, Bekaert repurchased another 560k shares, which have not been liquidated yet. We incorporate 19.9m outstanding shares and assume, therefore, Bekaert will cancel the 563.881 repurchased shares before the year-end. On top of that, we include the €32 hidden value of Bekaert's Joint Ventures to our target price. We argue the JV contribution is significant and sustainable.

Valuation and target price

We raise our 2007-08 EPS estimates to €6.99 (from €6.57), €7.88 (from €6.89) and introduce 09F EPS of €8.27, respectively. On these estimates, Bekaert trades at 13.0x 08F PE and 6.5x EV/EBITDA (including JV contribution to EBITDA). We assume Bekaert will trade at 16.2x PE 08F and 8.1x EV/EBITDA 08F, to unlock the market value of the joint ventures of €32 per share. Our new target price is €130, which implies some 26% potential upside.

Catalysts for share price performance

Stronger than expected growth in China or Russia as a result of stronger GDP or higher radicalisation could trigger Bekaert shares. Furthermore, the recent consolidations in the steel sector tend to have a big impact on the valuation of companies active in the sector. We do not consider Bekaert to be a potential target in this consolidation spree, but a re-rating of multiples in the sector could positively influence its valuation.

Risks to central scenario

At the 1Q07 trading update, Bekaert said it expected a volatile raw material market. Although an increase in the price for wire rods would benefit margins, a sudden drop could lead to a negative inventory revaluation.

What the debt market says

Bekaert is optimising its balance sheet by high levels of investment and by repurchasing shares. The targets of solvency of 40% and gearing of 50% have been beaten and we assume room for a potential buyback of €50m in 2008. Bekaert has no listed debt.

Versus consensus

EPS	ABN AMRO	Cons	% diff
2007F	6.99	6.83	+2%
2008F	7.88	7.17	+10%
2009F	8.27	7.53	+10%

Source: Reuters, ABN AMRO forecasts

Key events

Date	Event
31 July	1H07 Results
9 November	3Q07 Trading Update

Source: Company

Forced ranking*

Company	Rec	Upside / Downside
Bekaert	Buy	+26%
Wavin	Buy	+6%
Imtech	Hold	-13%
Agfa Gevaert	Sell	-18%

* by difference to target price as at time of publication. Recommendations may lie outside the structure outlined in the disclosure page
Source: ABN AMRO forecasts

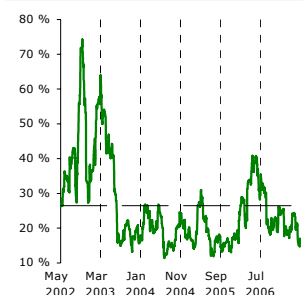
Debt vs equity

Solvency 08F: 50.2%

Gearing 08F : 43.5%

Source: ABN AMRO

Volatility (30-day)



Source: Bloomberg

Key assumptions and sensitivities

We assume a top-line 2007-09 CAGR of 7%. EBIT margin should be around 7% and the net profit of Bekaert's joint ventures should increase from €52.5m in FY07F to €55.7m in FY09F.

Table 1 : Key forecasts

	2005	2006	2007F	2008F	2009F
Sales Growth	11.3%	5.0%	6.7%	8.3%	6.2%
EBIT margin	7.1%	7.3%	7.1%	7.1%	6.7%
Net contribution Joint Ventures	56.9	51.0	52.5	54.3	55.7

Source: Company data, ABN AMRO forecasts

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We consider Bekaert to be a state-of-the-art BRIC (Brazil, Russia, India and China) company. A great deal has been invested in BRIC countries in the last few years, and this should trigger top-line expansion and...

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Only this year Bekaert repurchased some 5% of outstanding shares. Interesting from an EPS point of view, but we argue that investing in emerging markets should be more profitable.

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We expect strong top-line growth, resulting in a high free cash flow yield. EBIT margin is conservative; declining from 7.3% in FY06 to 7.1% in FY08F.

Reiterate Buy; TP €130

We raise our target price to €130 on the back of higher-than-anticipated top-line growth in emerging markets. We apply Bekaert's multiples without Joint Ventures to unlock its hidden value of €32 per share.

Wire products – a strong performer

Bekaert has invested heavily in its main division Advanced Wire Products (89% of FY06 combined sales) in the last few years. Sales are shifting from developed countries towards emerging markets and Bekaert is following its clients. The high investments should pay off now and we have incorporated double-digit growth in Wire Asia, Building products and Steelcord China. We think the market underestimates Bekaert growth potential, and our top-line 2007-09F CAGR of 7% is some 4% above consensus.

Table 2 : Breakdown Bekaert's combined sales

Wire Products	1H05	2H05	FY05	1H06	2H06	FY06	1H07F	2H07F	FY07F	FY08F	FY09F
Wire Europe	-2%		-7%	0%	-5%	8%	14%	8%	11%	8%	5%
Wire North America	-1%		-4%	1%	-14%	-6%	-12%	-12%	-12%	0%	0%
Wire Latin America	24%		26%	21%	-6%	7%	2%	2%	2%	5%	5%
Wire Asia	12%		24%	12%	-1%	7%	20%	16%	18%	15%	10%
Building products	-2%		12%	2%	-1%	11%	20%	16%	18%	10%	5%
Steel cord China	28%		39%	38%	29%	54%	50%	41%	45%	30%	20%
Steel cord others	24%		15%	-4%	-1%	-6%	-4%	0%	-2%	0%	0%
Other advanced wire products	7%		19%	30%	-1%	6%	-3%	-1%	-2%	0%	0%
Wire Europe	189.1	168.3	357.5	170.2	160.3	330.5	194.0	172.8	366.8	396.2	416.0
Wire North America	135.1	112.4	247.5	131.7	96.3	228.0	115.9	84.8	200.6	200.6	200.6
Wire Latin America	405.3	502.2	907.5	497.4	471.6	969.0	507.4	481.0	988.4	1037.8	1089.7
Wire Asia	13.5	14.0	27.5	14.6	13.9	28.5	17.6	16.1	33.6	38.7	42.5
Building products	67.6	69.9	137.5	73.2	69.3	142.5	87.8	80.4	168.1	185.0	194.2
Steel cord China	67.6	97.4	165.0	102.4	125.6	228.0	153.6	177.0	330.6	429.8	515.7
Steel cord others	418.8	378.7	797.5	395.0	374.5	769.5	379.2	374.9	754.1	754.1	754.1
Other advanced wire products	54.0	56.0	110.0	58.5	55.5	114.0	56.8	55.0	111.7	111.7	111.7
Combined Sales	1,351	1,399	2,750	1,443	1,367	2,809.9	1,512.2	1441.8	2954.0	3153.8	3324.6

Source: ABN AMRO, Company data

Latin American joint ventures

Bekaert's business model in Latin America is based on joint ventures with local partners. This enables Bekaert to use the partner's knowledge of the local market, while contributing its own technological knowledge. Hence, it finds JVs flexible and an ideal vehicle through which to launch new activities and enter new markets. These JVs are reported as 'participations' in Bekaert's P&L and as 'investments' on the balance sheet, and are valued at book value, which was €238m at end-2006. Since Bekaert appeared on our radar screen, we have flagged the hidden value of these participations with the main operations being in Chile, Venezuela and Brazil.

Book value of the joint ventures was €238m at end-2006

Belgo Bekaert Arames and Belgo Mineira Bekaert Artefatos (Brazil)

In Brazil, Bekaert has a 45% stake each in Belgo Bekaert Arames (wire products) and Belgo Mineira Bekaert (tyre reinforcement). Arcelor held the remaining 55% until it was acquired by Mittal. Initially, Mittal did not want to acquire the outstanding shares of Arcelor Brasil. But the Brazilian regulator, CVM, forced Mittal to buy the stake. CVM

Mittal acquired Bekaert's JV partner Arcelor Brasil for 13.2x PE 06

rejected the initial acquisition price. Hence, Arcelor Mittal raised the bidding price by 54%, and will now be able to acquire the outstanding shares and delist them. Arcelor Brasil is not a core activity for Mittal, but the best scenario for Bekaert would be the continuation of the current co-operation. Mittal’s final bid of BRL51.27 implied a PE 06 of 13.2x. When we compare the current book value of Belgo Bekaert Arames (3.4x PE 06) and BMB-Belgo Mineira Bekaert (7.1x PE 06), we conclude the book value of these joint ventures is lower than their market value. Bekaert’s operations even deserve a higher multiple since the joint ventures generate higher margins than Arcelor Brasil did.

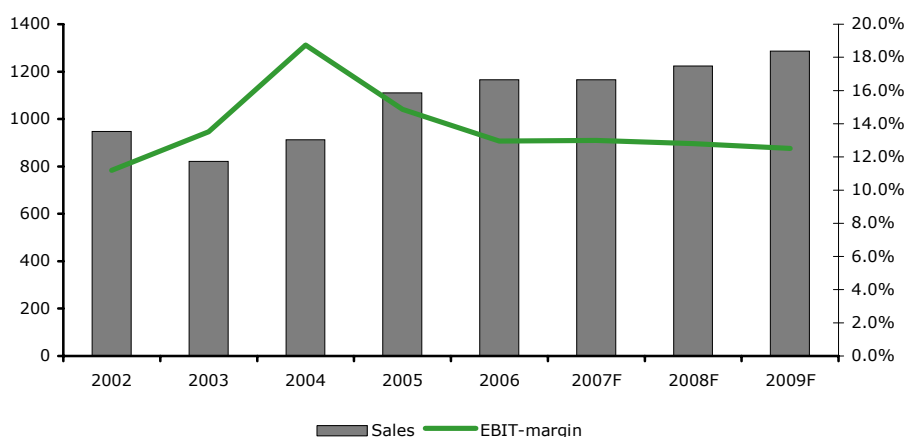
Once and for all: what is the value of the JVs?

The equity value of the participations is disclosed in Bekaert’s annual report. The book value is not fluctuating much, as depreciation more or less equals capex. After FY06, the book value amounted to €238m and EBIT was €65.4m, which leads to an implicit ROE of 28%. With a net profit of €51m, generated by a equity value of €238, the PE/06 ratio for the joint ventures was 4.6x. The net debt of the JV was less than €5m at the end of FY06. We assume this debt position is currently zero, and that if depreciation (€40m) equals capex, this should be sustainable. The EV/EBITDA 06 ratio was 2.2x, when we assume EBITDA was €105m and the JVs were almost debt-free.

EV/EBITDA 06 of the joint ventures is 2.2x and PE 06 is 4.6x

These ratios are clearly lower than Bekaert’s multiples without joint ventures and the book value is too low, but how do we calculate the market value?

Figure 1 : JV EBIT margin above group average



Source: Company data, ABN AMRO forecasts

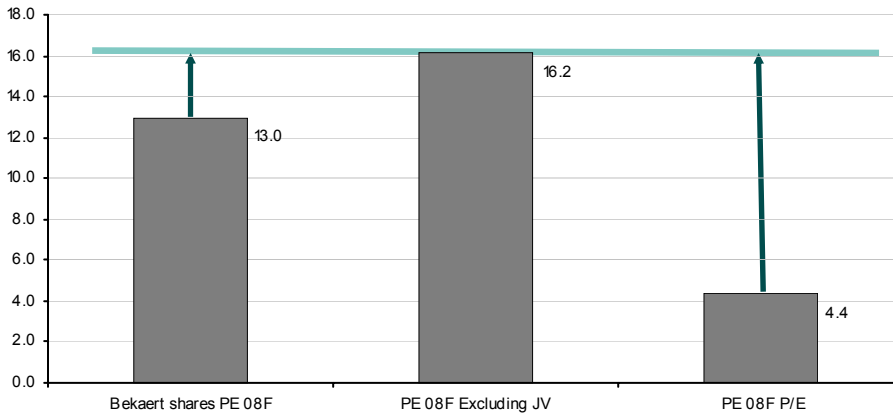
We use two valuation methods; PE and EV/EBITDA to value Bekaert’s JVs.

PE 08F multiple

When we take a closer look at the Bekaert 08F PE of 13.0x, we have to distinguish between 1) the multiple without the JV contribution and 2) the standalone JV multiple. The 13.0x is the weighted average of the two. The implicit PE 08F multiple of Bekaert without JVs should be 16.2x, given our forecast consolidated FY08 net profit of €110.6m (ex-JV) and the market cap for the group of €1,784m (which excludes the book value of the equity of the JVs).

The 08F PE of the JV is simply calculated by dividing the book value of the equity of €238m by the net profit of €54.3m to arrive at 4.4x, which indicates hidden value.

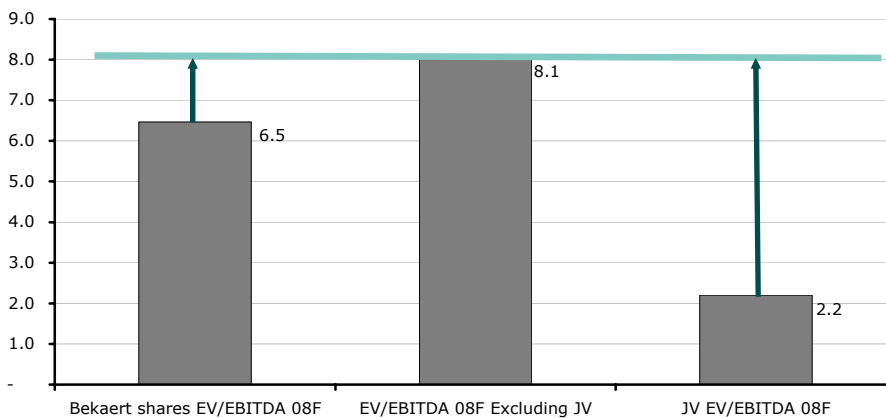
We think the PE 08F multiple should be appropriate for the total group. We arrive at a hidden value of €32 when we apply the 16.2x to our EPS 08F estimate.

Figure 2 : Applying 16.2x PE 08F to the Joint Ventures

Source: ABN AMRO

EV/EBITDA 08F multiple

To calculate the consolidated 08F EV/EBITDA (without the JV contribution), we deduct the book value of the equity of the JV from the enterprise value of the group (to arrive at €1,784m). Since the EBITDA of the JVs is not included in this multiple, we arrive at 8.1x 08F EV/EBITDA.

Figure 3 : Applying EV/EBITDA 08F to the Joint Ventures

Source: ABN AMRO

We estimate the JV's 08 EBITDA is €108m compared with the book value of equity of €238m. Therefore, we forecast the implied 08 EV/EBITDA is 2.2x, which clearly indicates hidden value. We assume the EV/EBITDA for the JV should equal the 08F EV/EBITDA of Bekaert excluding JVs of 8.1x to raise the group EV/EBITDA from 6.5x to 8.1x.

Applying the 8.1x EV/EBITDA 08F, the hidden value of the joint ventures is €32 per share

When we apply the 8.1x multiple to our estimates, the hidden value of Bekaert's Joint Ventures should be €32 per share.

A first-class BRIC company

We consider Bekaert to be a state-of-the-art BRIC (Brazil, Russia, India and China) company. A great deal has been invested in BRIC countries in the last few years, and this should trigger top-line expansion and profitability.

Bekaert's consolidated portfolio consists of three divisions – Advanced Wires (84% of sales), Advanced Materials (10%) and Coatings (6%). The last two should be steady performers in the coming years but growth in profitability should come from Wires. Bekaert is rapidly expanding its capacity in China, where it holds a market share of above 30%. With the intended acquisition of Russian market leader Uralkord, Bekaert could have a new fast growing market to ramp up investments. With a 2006 and beyond ROIC of above 12%, these capex levels will contribute to profitability.

Russian Uralkord offers growth potential

The Russian car market is buoyant. There has been substantial growth in the market for foreign cars and tyres, but little in the market for current tyre radialisation (percentage of reinforced tyres). Global car manufacturers are already flocking to Russia to take advantage of this car-buying boom, with GM, Nissan and VW the latest to announce plans to set up factories in Russia. Ford is also reported to be planning to double its production capacity in St Petersburg to 150,000 cars per year.

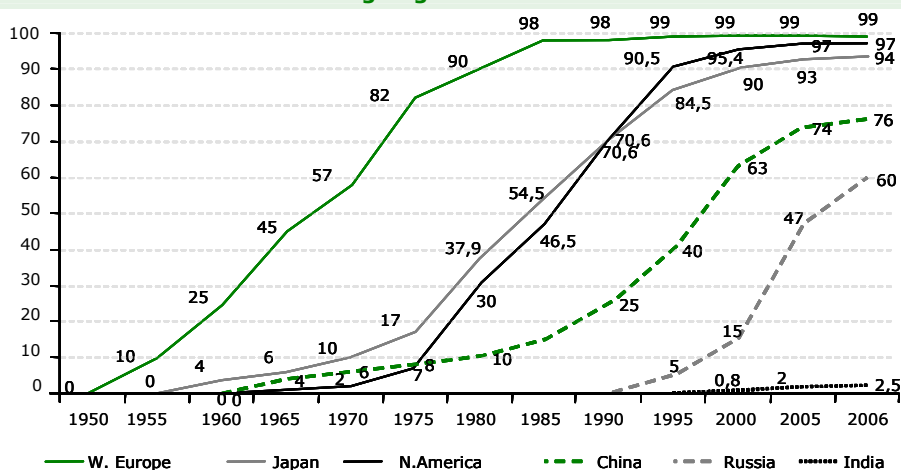
The Russian steel and car market is rapidly growing. Bekaert expects strong demand for its tyre reinforcement

Tyre sales should follow foreign car sales

Following double-digit growth in foreign car sales in Russia, the interest in high-quality tyres is also increasing. So far, Michelin is the only western tyre manufacturer to enter the Russian market (together with Nokian tyres) and it has roughly half of the volume. Michelin's faster-than-expected growth in Russia's tyre market is already attracting the interest of other global tyre manufacturers (eg, Bridgestone). Given the growth potential in tyre manufacturing for both passenger cars and trucks, Bekaert expects a significant increase in demand for its high-quality steel cord products.

On the one hand, Bekaert's international steel cord customers like Michelin and Nokian are expanding their tyre capacity in Russia; on the other, there is a clear evolution in demand for top-quality products from Russian tyre manufacturers. Therefore, Bekaert wants to have its own production capacity so it can provide optimal service to customers in Russia, as it does in every major market.

Chart 1 : Radialisation is an ongoing evolution



Source: Company data

As can be seen in the chart above, radialisation in Western Europe, Japan and North-America is almost at 100%, while Russia (along with China and India) is lagging. The medium-term outlook is for radialisation in the developing countries to come close to that in the developed world. Russia, in particular, has a long way to go with its radialisation at 60% in 2006, compared to 99% in Western Europe.

Bekaert says it wanted to create a foothold in the Russian market to cater for this potential demand. In December 2006, it signed a declaration of intent to acquire Uralkord for some €47m enterprise value. Uralkord, located in Magnitogorsk, manufactures steel-cord products for tyre reinforcement and holds nearly a third of the Russian market by volume. Previously, Bekaert's products were supplied to Russia from its plants in Central Europe, but with the acquisition of Uralkord, the company has a new platform for growth to cater for the increasing demand and to expand capacity over the next few years. We expect the final acquisition the coming weeks. Bekaert is taking a closer look at the possibility of finding a local supplier of wire rods, the company's most important raw material.

Russian radialisation is still at 60%, compared with almost 100% in developed countries

How much will it add?

We estimate Uralkord's current capacity is 20,000 tonnes, while the total market is estimated at 70,000 tonnes, and should continue to show double-digit growth over the next few years, according to the company. It is very difficult to estimate the potential sales contribution from the Russian steelcord market. To calculate sales, we have to make some assumptions:

- Russian GDP grows 6.4% in 2007 and 5.9% in 2008, based on IMF forecasts
- Radialisation should increase from 60% in 06 to 70% in 07F and to 75% in 08F. It should continue to increase beyond that too, albeit at a slower pace.
- Uralkord's market share should increase from 29% to 35% in 2008F. We assume Bekaert succeeds in acquiring competitors and gaining market share, due to its technological advancements.
- Russian EBIT margin equals wire-EBIT margin of 10.0%.

We think Russia could add some €24m to sales in 2009 when the Uralkord deal is to be closed, as displayed in Table 3.

Table 3 : Potential Russian sales contribution

	2006	2007F	2008F	2009F
Radialisation	60%	70%	75%	79%
GDP estimates (IMF)		6.4%	5.9%	4.0%
Output (th tonnes)	60	74	85	93
Bekaert's market share		29%	32%	35%
Bekaert's output (th tonnes)	20	22	27	32
Sales contribution (mEUR)	15	16	20	24

Source: Company data, IMF forecasts, ABN AMRO forecasts

Chinese investments ramping up

Bekaert considers China to be a specific growth market for the tyre industry because of the country's double-digit GDP growth. According to Bekaert there is a positive correlation between GDP growth and the growth of road transport. For example, China is rapidly expanding its road network. In 2005, China had 320,000 km of Grade 2 roads and about 41,000 km of which were expressways. Bekaert expects another 24,000 km of expressways to be built between 2006 and 2010. The total future network of expressways is estimated at 85,000 km.

Table 4 : Road development

	2002	2003	2004	2005	Growth
Type of road					
Expressway	2.51	2.97	3.43	4.1	63.3%
Grade 1 road	2.75	2.99	3.35	3.84	39.6%
Grade 2 road	19.71	21.19	23.17	24.64	25.0%
Grade 3 road	31.51	32.48	33.53	34.47	9.4%
Grade 4 road	81.8	84.24	88.1	92.13	12.6%
No grade road	38.23	37.11	35.48	33.88	-11.4%
Total	176.51	180.98	187.06	193.06	9.4%

Source: Company data

The car and tyre industries are benefiting from China's expanding road network. In 2005, 5,737k cars were sold (3,069k cars, 2,163k light commercial vehicles and 505k heavy commercial vehicles), an astonishing 164% growth compared with 2000. Furthermore, China is becoming a major tyre production base and Chinese tyre makers are getting stronger internationally, as half their locally produced tyres are exported. These tyres are commodity tyres sold at very low prices. Also, nine of the world's top 10 tyre manufacturers have production facilities in China spread over 15 plants. According to Bekaert, 90% of its steelcord is sold to local producers. In the table below, we provide the number of tyres produced in China.

90% of Bekaert's clients in China are local tyre producers

Table 5 : Output of Chinese tyre manufacturers (10k)

		2003	2004	2005	Growth
Truck & Bus	radial	1117	1820	2548	129.0%
	bias	1756	19121	1474	-16.0%
Light Truck	radial	1288	1689	1842	43.0%
	bias	1674	1596	1862	11.0%
car	radial	2530	3928	5279	109.0%
	bias	28	11	9	-65.0%
OTR	radial	0.06	0.4	2	3575.0%
	bias	28	94	118	322.0%
Industrial	radial	0.02	0.94	12	62454.0%
	bias	195	941	844	332.0%
Agricultural	radial	205	903	1020	398.0%
Total		8821	12894	14992	70.0%

Source: Company data

Bekaert has invested substantially in China over the past few years to increase its steelcord production capacity for tyre reinforcement. We assume Bekaert will have an annual capacity of 240,000 tonnes at the end of 2007. This compares with a capacity of 125,000 at the end of 2005 and 200,000 at end-2006, and is distributed over Weihai, Jiangyin and Shenyang. Bekaert is currently working to increase its production capacity in China by at least 20%, which should be ready before the year-end. In 2006, it invested €100m in China. During the AGM, Bekaert announced that in 2007 it would invest a similar amount to further increase capacity. This €100m investment programme should also increase the activity of its engineering department in Jiangyin, which acts as an important equipment supplier.

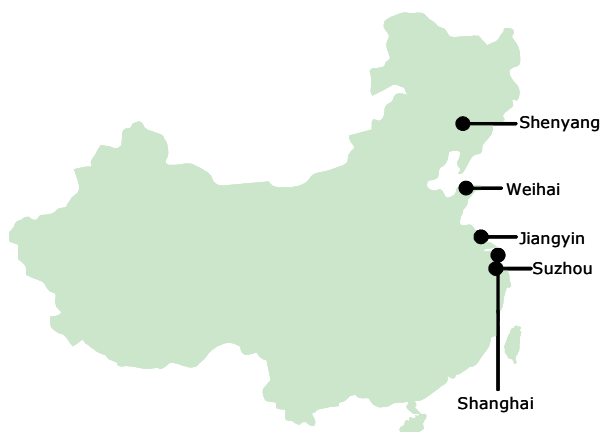
Bekaert estimates the total Chinese market for steelcord will be 700,000 tonnes in 2010 vs 400,000 tonnes this year, which is already larger than the Western-European and North-American markets. Bekaert’s market share is above 30% and it currently employs 4,000 people.

Bekaert estimates the Chinese demand for steelcord will exceed Western European and North American demand

Shougang Concord

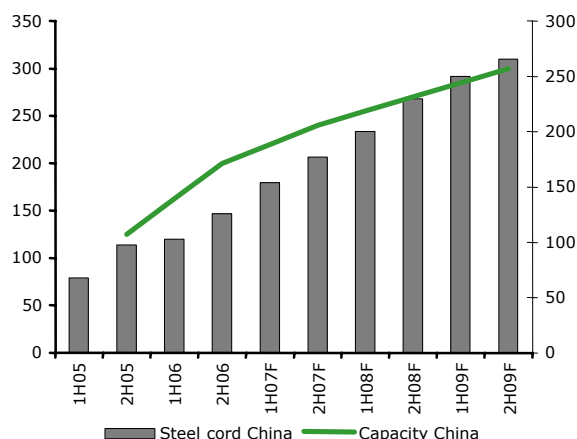
Bekaert holds a minority stake as investment in Shougang Concord Century Holdings, which is listed in Hong Kong. Shougang Concord produces steelcord, among other things, and expects to produce 60,000 tonnes of it in 2007. Bekaert says the rationale for this investment is to get an insight into the procurement of a Chinese peer with a purely Chinese management. Bekaert now hopes to improve its wire rod purchases in cooperation with Shougang.

Chart 2 : Production locations



Source: Company data

Chart 3 : Sales and capacity are growing rapidly



Source: ABN AMRO forecasts, company data

The potential contribution

With a group ROIC of above 12% in 2006 and EBIT margins at group average of 10.0%, we expect a strong profit contribution from the Chinese operations. As shown in Chart 3 we forecast a strong sales and capacity growth, the next few years. Sales in Steelcord China should be around 16% of combined sales in 2009F. We estimate these sales should contribute above €50m to EBIT.

Why a share buyback?

Only this year Bekaert repurchased some 5% of outstanding shares. Interesting from an EPS point of view, but we argue that investing in emerging markets should be more profitable.

Given the strong EBITDA development, Bekaert has a fundamental high free cash flow yield. We forecast a yield of 4.4% in 2007 to 5.3% in 2009. Although we prefer high investments in emerging markets, management is also buying back shares.

The potential share buyback

In 2007, Bekaert has repurchased 1110,660 shares, 563,881 of which are not liquidated yet. In the last three years, the company has repurchased and liquidated some 10% of outstanding shares, which has directly contributed to EPS growth. At the AGM, the company was granted a mandate to buy back the maximum number of 1.7m shares.

Bekaert repurchased some 10% of outstanding shares in the last two years

In our calculations, there will be 19.9m outstanding shares as at end-2007.

The scenario

We have constructed a potential scenario in which Bekaert will optimise its capital structure. Currently, Bekaert has the following balance sheet targets: financial autonomy (net debt/total assets) should be 40% and gearing should be around 50%. Given the current net debt estimates of €501m at end-2008F, it looks possible to raise this net debt to €551m, which implies a buyback of some 500,000 outstanding shares, which equals some 2.5% of outstanding shares.

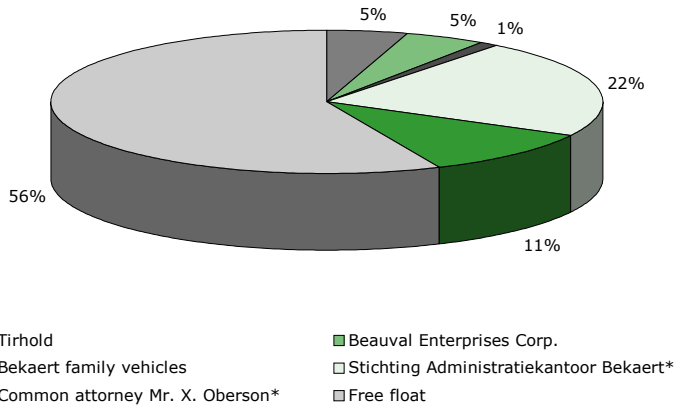
ROIC vs EPS contribution: why buy back shares?

In 2006, Bekaert's return on invested capital was slightly above 12%, compared with our WACC calculations of 7.5%. A buyback of €50m led to an EPS increase of only 1.3%. Hence, we argue it makes more sense for Bekaert to invest in emerging markets than to repurchase shares.

Drawbacks of repurchasing shares

Liquidity has been increasing over the last few years, given Bekaert's strong performance and the increasing attention of investors. What did not change was the number of shares held by the Bekaert family. Since 2002, the family has not been in charge of the company. The fifth generation still holds 34% via its investment vehicles. Fortunately, the shares are now more than ever on the radar screen of investors, so liquidity won't be a problem.

Figure 4 : Shareholder breakdown 1 March 07



Source: ABN AMRO, Company data

Financial overview

We expect strong top-line growth, resulting in a high free cash flow yield. EBIT margin is conservative; declining from 7.3% in FY06 to 7.1% in FY08F.

Table 6 : P&L

	2004	2005	2006	2007F	2008F	2009F
Sales						
Advanced wire products	1500.1	1639.9	1683.9	1788.0	1929.5	2039.1
Advanced materials	116.5	141.1	196.1	221.8	248.5	271.3
Advanced coatings	127.0	132.4	136.3	141.4	151.7	162.8
Other	120.4	121.4	115.0	115.0	115.0	115.0
Eliminations	-143.5	-120.5	-121.8	-121.8	-121.8	-121.8
Total	2173.2	1914.3	2009.6	2144.3	2322.9	2466.4
Gross Profit	490.8	392.1	394.9	419.8	456.6	491.4
Gross Margin	22.6%	20.5%	19.7%	19.6%	19.7%	19.9%
Ebit	185.1	136.3	145.9	151.7	163.9	165.9
Depreciation & Amortization	122.6	121.2	116.2	115.8	118.9	121.7
Ebitda	307.7	257.4	262.2	267.6	282.8	287.6
Ebit						
Advanced wire products	180.6	171.1	179.9	178.8	193.0	203.9
Fencing systems Europe	51.7					
Advanced materials	7.5	5.3	12.0	15.5	17.4	19.0
Advanced coatings	-7.7	-4.2	0.9	7.1	10.6	11.4
Other	-47.0	-35.9	-35.3	-49.7	-57.1	-68.4
Eliminations			-11.6			
Total	185.1	136.3	145.9	151.7	163.9	165.9
Interest Income	3.229	5.859	3.735	3.0	3.0	3.0
Interest Expense	-19.58	-32.791	-28.867	-29.0	-26.0	-20.0
Result from ordinary activities before taxes	154.5	121.0	114.2	119.7	134.9	142.9
Taxes	-28.1	-30.3	-18.1	-21.6	-24.3	-25.7
Result from ordinary activities after taxes	126.4	90.7	96.1	98.2	110.6	117.2
Joint-Ventures	56.772	56.939	50.991	52.5	54.3	55.7
Minority Interest	-12.4	-12.0	-4.8	-5.3	-5.4	-5.6
Extraordinary result		54.187				
Consolidated Net result	167.6	189.9	142.3	145.4	159.4	167.3

Source: Company data, ABN AMRO forecasts

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For listed property trusts (LPT) or real estate investment trusts (REIT) the recommendation is based upon the target price plus the dividend yield, ie total return. A Buy implies a total return of 10% or more, a Hold 5-10% and a Sell less than 5%. This structure applies to research on Asian and European stocks published from 1 November 2005; on Australian stocks from 7 November 2006 and on continental European small and mid cap stocks from 23 November 2006. For UK small caps a Buy/Sell implies upside/downside of 10% or more, an Add/Reduce 5-10% and a Hold less than 5%.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Sector relative to market: The sector view relative to the market is the responsibility of the strategy team. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Asset allocation: The asset allocation is the responsibility of the economics team. The recommended weight (Over, Neutral and Under) for equities, cash and bonds is based on a number of metrics and does not relate to a particular size change in one variable.

Stock borrowing rating: The stock borrowing rating is the subjective view and responsibility of the ABN AMRO equity finance team: Easy implies ready availability. Moderate implies some availability. Hard implies availability is tight. Impossible implies no availability.

Distribution of recommendations

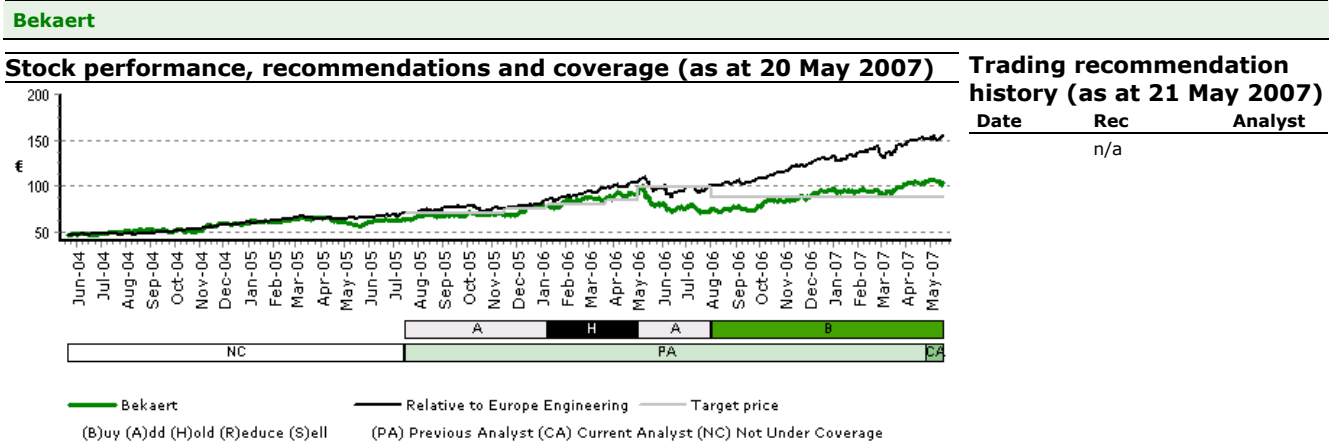
The tables below show the distribution of ABN AMRO's recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where ABN AMRO has an investment banking relationship.

Long Term recommendations (as at 21 May 2007)		
	Global total (IB%)	Europe total (IB%)
Buy	627 (20)	256 (45)
Add	24 (54)	23 (57)
Hold	502 (18)	221 (36)
Reduce	0 (0)	0 (0)
Sell	138 (7)	52 (15)
Total (IB%)	1291 (18)	552 (39)

Trading recommendations (as at 21 May 2007)		
	Global total (IB%)	Europe total (IB%)
Trading Buy	10 (10)	4 (25)
Trading Sell	3 (33)	1 (100)
Total (IB%)	13 (15)	5 (40)

Valuation and risks to target price

Bekaert (RIC: BERTt.BR, Rec: Buy, CP: €103.00, TP: €130.00): Our target price is DCF-based. A key risk to our valuation and target price would be a shortage of raw materials, which Bekaert said, at its 1Q07 trading update, it expects. Moreover, an increase in the price for wire rods is beneficial for margins, though a sudden drop could squeeze margins.



Wim Gille started covering this stock on 29 Mar 07
 Moved to new recommendation structure between 1 November 2005 and 31 January 2006

Regulatory disclosures

Subject companies: **BERTt.BR**

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BEKAERT: KEY FINANCIAL DATA

Income statement

€m	FY05A	FY06A	FY07F	FY08F	FY09F
Revenue	1914	2010	2144	2323	2466
Cost of sales	-1401	-1498	-1609	-1747	-1853
Operating costs	-255.8	-248.9	-268.0	-292.7	-325.6
EBITDA	257.4	262.2	267.6	282.8	287.6
DDA & Impairment (ex gw)	-121.2	-116.2	-115.8	-118.9	-121.7
EBITA	136.3	145.9	151.7	163.9	165.9
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	136.3	145.9	151.7	163.9	165.9
Net interest	-26.9	-25.1	-26.0	-23.0	-17.0
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Other pre-tax items	11.7	-6.56	-6.00	-6.00	-6.00
Reported PTP	121.0	114.2	119.7	134.9	142.9
Taxation	-30.3	-18.1	-21.6	-24.3	-25.7
Minority interests	-12.0	-4.77	-5.25	-5.43	-5.57
Other post-tax items	111.1	51.0	52.5	54.3	55.7
Reported net profit	189.9	142.3	145.4	159.4	167.3
Tot normalised items	54.2	0.00	0.00	0.00	0.00
Normalised EBITDA	257.4	262.2	267.6	282.8	287.6
Normalised PTP	121.0	114.2	119.7	134.9	142.9
Normalised net profit	135.7	142.3	145.4	159.4	167.3

Source: Company data, ABN AMRO forecasts

year to Dec

Balance sheet

€m	FY05A	FY06A	FY07F	FY08F	FY09F
Cash & market secs (1)	132.2	52.1	29.4	48.9	88.4
Other current assets	860.2	862.1	909.3	977.1	1032
Tangible fixed assets	799.8	824.2	858.3	889.4	917.7
Intang assets (incl gw)	125.4	134.5	134.5	134.5	134.5
Oth non-curr assets	314.0	343.9	343.9	343.9	343.9
Total assets	2232	2217	2275	2394	2516
Short term debt (2)	246.7	218.0	250.0	250.0	250.0
Trade & oth current liab	321.2	376.6	395.3	415.9	432.4
Long term debt (3)	297.7	274.4	300.0	300.0	300.0
Oth non-current liab	235.9	226.6	226.6	226.6	226.6
Total liabilities	1101	1096	1172	1193	1209
Total equity (incl min)	1130	1121	1104	1201	1307
Total liab & sh equity	2232	2217	2275	2394	2516
Net debt (2+3-1)	412.1	440.2	520.6	501.1	461.6

Source: Company data, ABN AMRO forecasts

year ended Dec

Cash flow statement

€m	FY05A	FY06A	FY07F	FY08F	FY09F
EBITDA	257.4	262.2	267.6	282.8	287.6
Change in working capital	-33.9	49.7	-28.4	-47.3	-38.0
Net interest (pd) / rec	-15.3	-31.7	-32.0	-29.0	-23.0
Taxes paid	-30.3	-18.1	-21.6	-24.3	-25.7
Other oper cash items	112.1	57.7	52.6	54.3	55.7
Cash flow from ops (1)	290.1	319.8	238.2	236.5	256.5
Capex (2)	-129.7	-171.7	-150.0	-150.0	-150.0
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	0.00	0.00	0.00	0.00	0.00
Cash flow from invest (3)	-129.7	-171.7	-150.0	-150.0	-150.0
Incr / (decr) in equity	13.6	-86.2	-106.5	0.00	0.00
Incr / (decr) in debt	-16.5	-52.0	57.7	0.00	0.00
Ordinary dividend paid	-52.3	-72.2	-62.0	-67.0	-67.0
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	2.23	0.19	0.00	0.00	0.00
Cash flow from fin (5)	-52.9	-210.3	-110.9	-67.0	-67.0
Forex & disc ops (6)	0.00	0.00	0.00	0.00	0.00
Inc/(decr) cash (1+3+5+6)	107.5	-62.3	-22.7	19.5	39.5
Equity FCF (1+2+4)	160.4	148.0	88.2	86.5	106.5

Lines in bold can be derived from the immediately preceding lines.

Source: Company data, ABN AMRO forecasts

year to Dec

BEKAERT: PERFORMANCE AND VALUATION

Standard ratios	Bekaert					Wavin			Agfa Gevaert		
Performance	FY05A	FY06A	FY07F	FY08F	FY09F	FY07F	FY08F	FY09F	FY07F	FY08F	n/a
Sales growth (%)	-11.9	4.98	6.71	8.33	6.18	7.43	6.42	4.25	3.31	3.97	n/a
EBITDA growth (%)	-16.3	1.83	2.06	5.68	1.70	11.1	8.67	3.90	85.4	0.27	n/a
EBIT growth (%)	-26.4	7.09	3.97	8.00	1.23	13.9	11.6	3.98	307.5	15.4	n/a
Normalised EPS growth (%)	-20.5	6.58	6.09	12.7	4.90	7.26	17.4	6.02	891.5	24.0	n/a
EBITDA margin (%)	13.4	13.0	12.5	12.2	11.7	13.5	13.8	13.8	11.8	11.4	n/a
EBIT margin (%)	7.12	7.26	7.08	7.05	6.73	10.3	10.8	10.7	7.54	8.37	n/a
Net profit margin (%)	7.09	7.08	6.78	6.86	6.78	5.47	6.06	6.19	4.23	5.05	n/a
Return on avg assets (%)	8.20	7.92	8.07	8.22	7.86	7.56	8.23	8.34	4.88	5.70	n/a
Return on avg equity (%)	13.6	13.2	13.7	14.4	13.9	27.1	27.0	24.8	8.28	9.70	n/a
ROIC (%)	12.4	12.3	13.0	10.6	10.3	8.43	8.45	8.69	7.54	9.25	n/a
ROIC - WACC (%)	5.38	5.30	6.02	3.62	3.30	8.43	8.45	8.69	-0.20	1.51	n/a
				<i>year to Dec</i>			<i>year to Dec</i>			<i>year to Dec</i>	
Valuation											
EV/sales (x)	1.28	1.24	1.20	1.10	1.02	1.19	1.09	1.03	0.83	0.75	n/a
EV/EBITDA (x)	9.54	9.47	9.58	9.00	8.71	8.79	7.91	7.45	7.00	6.54	n/a
EV/EBITDA @ tgt price (x)	11.6	11.5	11.6	10.9	10.6	9.14	8.23	7.76	5.95	5.50	n/a
EV/EBIT (x)	18.0	17.0	16.9	15.5	15.1	11.6	10.1	9.55	11.0	8.91	n/a
EV/invested capital (x)	1.41	1.41	1.41	1.34	1.27	1.23	1.19	1.15	1.26	1.21	n/a
Price/book value (x)	2.09	2.07	2.03	1.81	1.66	3.63	3.13	2.72	1.32	1.24	n/a
Equity FCF yield (%)	7.10	6.65	4.12	4.15	5.11	3.65	6.67	6.69	12.1	9.99	n/a
Normalised PE (x)	16.7	15.6	14.7	13.1	12.5	14.6	12.5	11.8	16.4	13.2	n/a
Norm PE @ tgt price (x)	21.0	19.7	18.6	16.5	15.7	15.5	13.2	12.4	13.4	10.8	n/a
Dividend yield (%)	2.91	2.43	2.67	2.91	3.16	2.57	3.08	3.27	2.56	3.03	n/a
				<i>year to Dec</i>			<i>year to Dec</i>			<i>year to Dec</i>	
Per share data	FY05A	FY06A	FY07F	FY08F	FY09F	Solvency	FY05A	FY06A	FY07F	FY08F	FY09F
Tot adj dil sh, ave (m)	21.9	21.6	20.8	20.2	20.2	Net debt to equity (%)	36.5	39.3	47.2	41.7	35.3
Reported EPS (EUR)	8.65	6.59	6.99	7.88	8.27	Net debt to tot ass (%)	18.5	19.9	22.9	20.9	18.3
Normalised EPS (EUR)	6.18	6.59	6.99	7.88	8.27	Net debt to EBITDA	1.60	1.68	1.95	1.77	1.61
Dividend per share (EUR)	3.00	2.50	2.75	3.00	3.25	Current ratio (x)	1.75	1.54	1.45	1.54	1.64
Equity FCF per share (EUR)	7.31	6.85	4.24	4.27	5.26	Operating CF int cov (x)	22.0	11.7	9.12	9.99	13.3
Book value per sh (EUR)	49.2	49.7	50.7	57.0	62.2	Dividend cover (x)	2.59	1.97	2.35	2.38	2.50
				<i>year to Dec</i>						<i>year to Dec</i>	

Priced as follows: BERTe.BR - €103.00; WAVIN.AS - €16.52; AGFAt.BR - €19.50
Source: Company data, ABN AMRO forecasts

BEKAERT: VALUATION METHODOLOGY

	Group EPS 08F
Bekaert shares PE 08F (current share price)	13.0x
PE 08F Excluding JV (Equity excl. JV/Net Profit excl. JV)	16.2x
PE 08F JV (Equity JV/Net profit JV)	4.4x
<i>Equity Value per share</i>	€127
	EBITDA 08F
Bekaert shares EV/EBITDA 08F (current share price)	6.5x
EV/EBITDA 08F Excluding JV (EV excl. JV/EBITDA excl. JV)	8.1x
EV/EBITDA 08F JV (EV JV/EBITDA JV)	2.2x
Enterprise Value Bekaert incl. JV	€3163m
Group Net Debt	€501m
Minorities	€49m
<i>Equity Value per share</i>	€132

Source: ABN AMRO estimates

Bekaert

Company description

Bekaert, established in 1880, is active world-wide in select applications of its two core competencies: 'Advanced metal transformation' and 'Advanced materials and coatings'. Bekaert strives to be a market and technological leader in its niche markets. Management is strong, in our view, with focus on creating shareholder value. Via small, add-on acquisitions, Bekaert should be able to maintain its market position and profitability.

Buy

Price relative to sector



Strategic analysis

Average SWOT company score: 4

Shareholding 1 March 07

Strengths

Worldwide positions in almost every niche market in which it is active. Well positioned focus on its two core competencies. Management is strong, in our view. All in all, a limited risk company.

4

Weaknesses

Sensitivity to the GDP rate. When GDP declines, Bekaert's sold volume will normally decline and therefore profitability will decline.

3

Opportunities

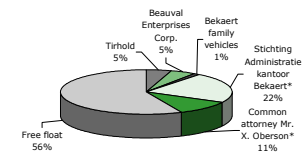
Strategic acquisitions could reinforce its leading positions and generate synergy advantages. Due to difficult market circumstances, we believe some of Bekaert's rivals will leave the market.

4

Threats

A further depreciation of the US dollar would threaten net profit as half the sales are generated in US dollars, or currencies tied to the US dollar. Another possible threat is the delisting on the BEL-20, which would lower daily volumes.

3



Source: Company data

Market data

Headquarters
President Kennedypark 18 Kortrijk

Website
www.bekaert.be

Shares in issue
19.8m

Freefloat
60%

Majority shareholders
Stichting Administratiekantoor Bekaert (22%), Common attorney, Mr Oberson (11%)

Engineering & Machinery

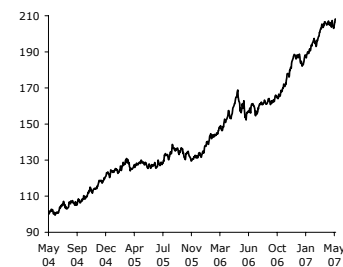
Sector view

Underweight

Sector rel to Europe

The Industrials look fully valued. Sector margins are at 20-year highs, and consensus expectations point towards further advance. With global growth moderating, maintaining margins looks a big ask. The sectors rating also looks elevated. We see pockets of strength in Industrials exposed to infrastructure spending.

The sector view is set in consultation with the relevant company analyst but is the ultimate responsibility of the Strategy Team.



Industry competitive position

Average competitive score: 4+

4+

Broker recommendations

Supplier power

Because of its market leadership, Bekaert is able to directly increase its selling prices and protect its gross profits in the advanced wire division.

5+

Barriers to entry

Since FY04, Bekaert has raised its research and development expenses to slightly over €50m, resulting in over 1,400 patents being owned.

4+

Customer power

High in some niches like the tyre industry. Few clients account for a high share of sales, making Bekaert dependent on them. Low in other markets where Bekaert is unique.

3+

Substitute products

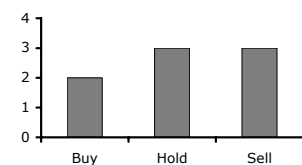
Not relevant

5-

Rivalry

Bekaert's combination of core competencies makes the company unique. Most rivals are privately owned companies with less supplier power.

5-



Source: Bloomberg

Scoring range 1-5 (high score is good) Plus = getting better Minus = getting worse